

V. Recommendations

Subject to testimony at the hearing and submittal of additional information supporting unmet needs, staff makes the following recommendations based upon review and analysis of Butte County's Application for a Finding of Significant Financial Distress, including public comments and the County's responses.

Recommendation on County Finances

Staff recommends that the Commission find:

- The County's FY 2004-05 Final Budget totals \$320.9 million, with a General Fund contingency appropriation of \$5.6 million. While this represents increased financing requirements of approximately \$2 million from prior year, the General Fund contingency is expected to decrease by \$.4 million.
- The County's discretionary expenditure flexibility is constrained both by fund restrictions and by state and federal mandates, leaving \$70.4 million, of the \$320.9 million in Final Budget appropriations, as theoretically available for discretionary use.
- The full \$70.4 million cannot be considered truly discretionary inasmuch as 35 percent, or \$24.7 million is directed toward state mandated costs and state established required maintenance of efforts.
- The County's total available discretionary resource for FY 2004-05 is projected to decline by \$4 million from \$74.4 million in FY 2004-05.
- Demands outside of the County's growth in program and service, such as retirement benefit contributions, California Department of Forestry contract costs, and reduced reimbursements funded through state mandate claims, are increasing.

Recommendation on Unmet Program Needs

Subject to the County submitting additional information to support their underlining assertions as indicated in Section III of the analysis, staff recommends that the Commission find **\$16,084,899** in unmet needs. This amount represents the approximate county portion of costs associated with basic county needs, which are unmet. Certain departments are funded from county- and non-county sources. The recommendation on unmet needs reflects a reduction proportionate with certain county departments' ratio of county- to non-county funds. See the following schedule.

DEPARTMENT	2004 APPLICATION TOTAL UNMET NEEDS (1)	2004 APPLICATION FUTURE UNMET NEEDS (2)	2004 APPLICATION CURRENT UNMET NEEDS (3) = (1) - (2)	ADJUSTMENT PER COUNTY RESPONSES (4)	2004 REVISED CURRENT UNMET NEEDS (5) = (3) + (4)	CSM RECOMMENDATION
Public Safety Departments						
District Attorney	\$ 746,433	\$ -	\$ 746,433	\$ -	\$ 746,433	\$ 662,250 c
Fire	3,764,687	-	3,764,687	(1,593,479)	2,171,208	1,198,825 a
Probation	9,909,689	-	9,909,689	-	9,909,689	3,416,776 c
Public Defender	-	-	-	-	-	-
Sheriff	9,713,038	-	9,713,038	-	9,713,038	6,691,617 c
Other Public Safety						
Agricultural Commissioner	55,155	-	55,155	-	55,155	13,352
Clerk-Recorder	-	-	-	-	-	-
Development Services	1,212,000	-	1,212,000	-	1,212,000	5,000
Water and Resource	4,200,000	3,150,000	1,050,000	40,000	1,090,000	- a
Health & Human Services						
Behavioral Health	7,012,000	2,792,000	4,220,000	13,970	4,233,970	- a
Public Health	1,042,700	-	1,042,700	(36,000)	1,006,700	389,450 a,c
Welfare-Adult & Children's Svcs	-	-	-	-	-	-
Employment and Social Svcs	453,900	-	453,900	170,000	623,900	97,750 a,c
General Government						
Administrative Office	700,000	-	700,000	-	700,000	- b
Assessor	318,290	-	318,290	-	318,290	318,290
Auditor-Controller	219,250	-	219,250	-	219,250	161,850
County Counsel	93,156	-	93,156	-	93,156	93,156 c
Elections and Registration	3,021,113	2,639,200	381,913	-	381,913	34,500
General Services	1,399,564	-	1,399,564	(3,000)	1,396,564	550,360 a,b,c
Information Services	1,136,759	452,705	684,054	(35,698)	648,356	436,690 a,b,c
Information Services-Comm.	2,478,600	660,000	1,818,600	(219,600)	1,599,000	1,538,000 a,b
Personnel	317,603	-	317,603	-	317,603	309,753
Treasurer-Tax Collector	215,000	-	215,000	-	215,000	40,000 c
Public Works	9,119,151	-	9,119,151	493,432	9,612,583	- a
Education & Recreation						
Farm and Home Advisor	66,250	-	66,250	-	66,250	-
Library	1,228,190	-	1,228,190	-	1,228,190	127,280
TOTAL	\$ 58,422,528	\$ 9,693,905	\$ 48,728,623	\$ (1,170,375)	\$ 47,558,248	\$ 16,084,899

a. The unmet need figures were revised to reflect the County response to staff questions, dated March 30, 2005.

b. There is a conflict between information in Table 7 on page 15 of Butte County Application and unmet need narratives in the Butte County Application. Staff confirmed with the County that unmet need described in the application narrative is the correct figure.

c. Staff's recommendation to approve these amounts is contingent upon the County providing additional information to support the need

Recommendation on Resource Flexibility

In summary, staff recommends the Commission find that the County has **\$8,290,839** in resource flexibility as follows:

Summary of Resource Flexibility

	Staff Recommendation
REVENUE	
Motor Vehicle in-lieu Tax	\$ -
Sales Tax	-
Property Tax	-
Prop. 172 Sales Tax	1,139,014
Charges for Services	171,441
Revenue Flexibility	1,310,455
RESERVES	
Appropriation for Contingency	5,616,078
Cost Savings Flexibility	525,000
Unexpended Available Resources	7,367
Internal Service Fund Balance	831,939
Reserves Flexibility	6,980,384
STATUTORY RELIEF	
TOTAL RESOURCE FLEXIBILITY	\$ 8,290,839

Review of Unmet Program Needs and Resource Flexibility

The General Assistance standard of aid reduction proposed in this Application would save approximately **\$269,280** on an annualized basis. The Application includes a request that the finding be made for a 36 consecutive month period. The County's Final 2004-05 Budget does not include any savings for General Assistance.

Staff recommends that the Commission find the County's Total Resource Flexibility is in the amount of **\$8,290,839**, and that, for purposes of this staff analysis, the County's Unmet Needs for Basic Services are in the amount of **\$16,084,899**.

If the County applied its Total Resource Flexibility to offset Unmet Needs, there would be a remaining balance of **\$7,794,096** in unmet needs (\$16,084,899– \$8,290,839=\$7,794,096).

Recommendation on Application for Finding of Significant Financial Distress

For the reasons stated above and in accordance with Welfare and Institutions Code section 17000.6, staff recommends that the Commission find that Butte County has made a compelling case that meeting the general assistance standard of aid established in Welfare and Institutions Code section 17000.5 will result in significant financial distress to the County and that, absent this finding, basic county services, including public safety, cannot be maintained.

Recommendation on Duration of Finding

The Application includes a five-year fiscal forecast for the County's General Fund, which is shown in the table below.¹ This table includes the impact of the "Local Government Package" and other changes in the state budget. The table shows that the County will begin to improve financially in FY 2006-07. The County notes in the Application that the cost estimates are on the high end of the probable range, while revenues have been projected conservatively. The forecast anticipates continued annual departmental under-spending from appropriations, which should result in a continuing year-to-year fund balance carry-overs.

Five-Year Fiscal Forecast Through Fiscal Year 2008-09 General Fund Only

	Proposed Budget FY 2004-05	Forecast Budget FY 2005-06	Forecast Budget FY 2006-07	Forecast Budget FY 2007-08	Forecast Budget FY 2008-09
Appropriations - Total Dept Requirements	\$149,583,315	\$153,757,763	\$158,091,499	\$162,592,317	\$167,269,142
Revenues:					
Property/Sales/ Other Taxes	\$23,802,075	\$24,721,282	\$25,676,270	\$26,668,443	\$27,699,256
State/Federal/Other Government	87,451,320	89,696,461	92,005,543	94,380,585	96,823,670
Charges for Service	19,482,021	19,871,661	20,269,095	20,674,477	21,087,966
All Other Revenues	14,316,896	12,608,259	12,907,176	13,213,854	13,528,504
Total for All Revenues	\$145,052,312	\$146,897,663	\$150,858,085	\$154,937,358	\$159,139,396
Subtotal Balance or (Gap)	(\$4,531,003)	(\$6,860,100)	(\$7,233,414)	(\$7,654,958)	(\$8,129,745)
Estimated Beginning Fund Balance	\$8,681,003	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Estimated End Fund Balance or (Gap)	\$4,150,000	\$3,139,900	\$2,766,586	\$2,345,042	\$1,870,255
Appropriation for Contingencies	\$4,150,000	\$4,600,000	\$4,600,000	\$4,600,000	\$4,600,000
End of Year Fund Balance	\$0	(\$1,460,100)	(\$1,833,414)	(\$2,254,958)	(\$2,729,745)
Anticipated Additional State Impacts	(\$1,085,000)	(\$910,500)	\$2,304,084	\$2,739,425	\$3,013,449
Anticipated Year-End Fund Balance/(Deficit)	(\$1,085,000)	(\$2,370,600)	\$470,670	\$5,484,466	\$283,704

The evidence provided to date reflects that the financial condition for Butte County will improve. The County received \$4.3 million less in VLF backfill revenues (VLF gap) in FY 2003-04 due to the lag time required by the state. AB 1768² provided that this gap would be repaid to local governments in FY 2006-07. The County anticipates receiving \$4,315,228 for unpaid VLF's on or around August 2006. As part of the new tax shifts, the state plans to eliminate the VLF backfill and reduce the VLF rate from 2 percent to 0.65 percent. In exchange for the loss of VLF

¹ Butte County Application, p.50

² Assembly Bill 1768, Chapter 231, Statute of 2003

revenue, counties will receive an equivalent amount of property taxes. However, for the first two years (FYs 2004-05 and 2005-06), counties will not receive the full amount because the state will retain \$700 million. The County contributions are estimated to be \$1,968,640 in each year.³ Consequently, starting in FY 2006-07, the County will receive additional property tax revenues. Also, as specified in Government Code section 17617, the state will begin repaying its mandate obligations over five years starting FY 2006-07. And, as required by article XIII B, section 6 of the California Constitution, beginning in FY 2005-06 the state will either appropriate in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year.

Therefore, Staff recommends that the Commission make a finding of significant financial distress for a period of **12 months**.

³ Butte County 2004-05 Proposed Budget Message, p. 9